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Acronyms

DDRS	Defense Departmental Reporting System
DFAS-DE	Defense Finance and Accounting Service Denver
DOV	Disbursing Officer's Voucher
GAFS-BL	General Accounting and Finance System – Base Level
GAFS-R	General Accounting and Finance System – Rehost
FMR	Financial Management Regulation
OMB	Office of Management and Budget
SBR	Statement of Budgetary Resources
USSGL	United States Standard General Ledger



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

March 15, 2007

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Air Force General Fund Disbursements as Reported in the
Statement of Budgetary Resources (Report No. D-2007-071)

We are providing this report for review and comment. We considered comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments were partially responsive. We request that the Central Site Director at Defense Finance and Accounting Service Denver provide additional comments on Recommendation 2. by April 15, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to our audit staff. Questions should be directed to Mr. Carmelo G. Ventimiglia at (317) 510-4801 (DSN 699-4801) ext. 275 or Mr. M. James Herbic at (303) 676-3280 (DSN 926-3280). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul V. Granetto", is positioned above the printed name.

Paul V. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing Service

Department of Defense Office of Inspector General

Report No. D-2007-071

March 15, 2007

(Project No. D2005-D000FD-0103.000)

Air Force General Fund Disbursements as Reported in the Statement of Budgetary Resources

Executive Summary

Who Should Read This Report and Why? Air Force financial managers and Defense Finance and Accounting Service (DFAS) personnel who have responsibility for financial reporting of Air Force General Fund disbursements should read this report. It discusses weaknesses in the audit trail for reporting Air Force General Fund disbursements in the FY 2004 Statement of Budgetary Resources.

Background. The Defense Finance and Accounting Service provides finance and accounting support to the Air Force. Defense Finance and Accounting Service Denver (DFAS-DE) accumulates, processes, and adjusts Air Force General Fund disbursements for reporting in the Statement of Budgetary Resources. During FY 2004, the Air Force had 195 direct appropriations with disbursement activity. The financial reporting process spans numerous operating organizations and financial systems. DFAS-DE reports the status of Air Force budgetary resources, including the outlays related to those resources, in the Statement of Budgetary Resources. Disbursements comprise most of the reported outlays. For the year ended September 30, 2004, the Air Force reported \$131.8 billion on Line 15a., Disbursements, in the Combined Statement of Budgetary Resources for the Air Force General Fund.

Disbursements made to pay liabilities or to purchase assets, goods, and services reduce the amount on Line 1.A.1, Fund Balance with Treasury, on the Balance Sheet. The amounts reported in the financial statements must be supported by a universe of valid detailed transactions. A proper audit trail leading to original documentation for those transactions affects management's ability to produce reliable and auditable financial statements.

Results. The General Accounting and Finance System - Rehost was able to identify the disbursement transactions (10,528,467 records) and journal vouchers (4,342 vouchers) that populated Line 15a. in the Air Force General Fund FY 2004 Statement of Budgetary Resources. We selected 45 journal vouchers and 45 disbursement transactions to determine whether adequate documentation existed to support the dollar values reported. Defense Finance and Accounting Service Denver personnel provided complete documentation for the 45 journal vouchers; however, they were not able to provide complete supporting documentation for 15 of the 45 disbursement transactions. As a result, we could not verify that a universe of transactions was available to support the dollar value of disbursements reported on Line 15a. in the Air Force General Fund FY 2004 Statement of Budgetary Resources. Until DFAS-DE improves the audit trails for Air Force General Fund disbursements and strengthens its ability to identify, obtain, and provide supporting audit documentation in a timely manner, Air Force management will have limited assurance that the Disbursements line in the General Fund Statement of

Budgetary Resources and related financial statement line items, such as Fund Balance with Treasury, will be ready for audit. (See the Finding section for the detailed recommendations.)

Management Comments and Audit Response. The Central Site Director at DFAS-DE partially concurred with the finding. The Central Site Director concurred in principle with the need to improve processes for identifying and obtaining audit documentation and providing it to auditors in a timely manner. He stated that processes and procedures for providing requested documentation will continue to be emphasized to DFAS managers. He also stated that DFAS is committed to working closely with the audit staff to obtain needed information and documentation, and he indicated that improved communication and coordination between auditors and management throughout the audit would help to reduce time frames for providing requested documentation. The Central Site Director's comments are responsive. As a result of a concerted effort from August through November 2006, DFAS-DE personnel were able to provide us with supporting documentation for 44 of the 45 sample disbursement transactions. The DFAS-DE Audit Liaison Office took a more active role in the process and involved personnel who were knowledgeable of the wide range of systems, processes, interfaces, and organizations involved in recording and reporting Air Force disbursement transactions. By periodically emphasizing to managers the processes and procedures for providing requested documentation and ensuring that records originating at closing sites are maintained and available at enduring sites, DFAS-DE can be more responsive to auditor requests for supporting documentation.

The Central Site Director nonconcurred with the need to record a complete disbursement voucher number (or another common identifier) for all disbursement records in the General Accounting and Finance System – Rehost. The Central Site Director stated that referential integrity to source systems and documentation exists with or without a complete voucher number recorded in the General Accounting and Finance System – Rehost. DFAS-DE used other data elements to identify the disbursement transaction when a voucher number was incomplete or not present. He also stated that system changes to perpetuate a complete voucher number throughout all disbursement processes, systems, and interfaces would be a significant endeavor. We understand that management must constantly weigh the costs and benefits of the internal controls and system processes it implements. However, reliance on non-unique data elements to research transactions and obtain documentation for auditor verification is more time-consuming than necessary even with the involvement of personnel who are knowledgeable of the processes, systems, interfaces, and available documentation. Our control sample test demonstrated that there was not a direct and efficient audit trail for many types of disbursement transactions. The consolidation of DFAS operations will make this process even more inefficient in the future. DFAS should review its most significant processes, systems, and interfaces related to disbursements for obvious and economical opportunities to increase the number and types of General Accounting and Finance System – Rehost transactions that include a unique identifier that will allow more effective identification of those transactions and more timely retrieval of supporting documentation. We request that the Central Site Director at DFAS-DE reconsider his position and provide additional comments on the final report by April 15, 2007.

See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

The Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, requires DoD to prepare and submit annual audited financial statements to the Office of Management and Budget (OMB). The Government Management Reform Act also requires OMB to identify Components of executive agencies that should prepare audited financial statements. OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," requires eight DoD Components to prepare and submit stand-alone audited financial statements. One of these Components is the Air Force General Fund.

The Defense Finance and Accounting Service Denver (DFAS-DE) provides finance and accounting support to the Air Force. DFAS-DE reports the status of Air Force budgetary resources, including the outlays (disbursements net of offsetting collections) made from those resources. The status is reported in the Statement of Budgetary Resources (SBR). Disbursements comprise most of the reported outlays. For the year ended September 30, 2004, the Air Force reported \$131.8 billion on Line 15a. (Disbursements) of the Combined SBR for the Air Force General Fund. Disbursements made to pay liabilities or to purchase assets, goods, and services reduce Line 1.A.1, Fund Balance with Treasury, on the Balance Sheet for the Air Force General Fund.

Numerous DoD systems process financial accounting information that is used to compile the Air Force General Fund financial statements. The primary system used by the Air Force is the General Accounting and Finance System – Base Level (GAFS-BL). GAFS-BL processes, summarizes, and reports financial data on a budgetary basis of accounting. GAFS-BL transfers its disbursements data to the General Accounting and Finance System – Rehost (GAFS-R) for classification in United States Standard General Ledger (USSGL) accounts. GAFS-R transfers its USSGL account trial balance to the Defense Departmental Reporting System (DDRS) for financial reporting in the SBR. Appendix B further discusses the financial reporting of disbursements in the Air Force General Fund financial statements.

Criteria

DoD Financial Management Regulation. DoD Financial Management Regulation (FMR) 7000.14-R, volume 6B, "Form and Content of the Department of Defense Audited Financial Statements," chapter 7, "Statement of Budgetary Resources," states that outlays reported in the SBR consist of disbursements net of offsetting collections. Collections offset outlays at the account level and increase budgetary resources. Chapter 7 requires that outlays agree with the aggregate of disbursements and collections reported to Treasury on a monthly basis in compliance with OMB Circular No. A-11, "Preparation, Submission and Execution of the Budget," June 2005. DoD FMR 7000.14-R, volume 5, "Disbursing Policy and Procedures," chapter 11, "Disbursements," August 1999, states that all disbursements must be supported by one of several types of formal

disbursement vouchers. To be considered a valid disbursement voucher, the voucher must contain a voucher heading and date, an accounting classification, an amount to be disbursed, a method of disbursement, and a payee.

DoD FMR 7000.14-R, volume 6A, "Reporting Policies and Procedures," chapter 2, "Financial Reports Roles and Responsibilities," March 2002, requires DFAS to ensure that a complete and documented audit trail is maintained to support the reports it prepares. The financial reporting of disbursements includes documentation of the original transactions, approval and payment of disbursement, recording of transactions in the official accounting records, making accounting adjustments, and reporting the disbursements in the appropriate financial statement.

Other Guidance. OMB Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004, requires that transactions be promptly recorded, properly classified, and fully accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination. The Joint Financial Management Improvement Program Report No. SR-02-01, "Core Financial System Requirements," mandates that Federal financial systems provide automated functionality to generate an audit trail of transactions from their initial source through all stages of related system processing. Their initial source may be source documents, transactions originating from other systems (e.g. feeder systems), or internal, system-generated transactions.

Objectives

Our objective was to determine whether a universe of individual disbursement transactions existed for the Disbursements line item in the Air Force General Fund FY 2004 SBR. If there was a complete universe, we would determine whether an adequate audit trail existed to the documentation supporting the disbursement transactions. We reviewed the management control program as it related to our objective. See Appendix A for a discussion of the scope and methodology and for prior coverage related to our audit objectives.

Review of Internal Controls

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996,¹ require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

¹Our review of internal controls was done under the auspices of DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," was reissued on January 4, 2006.

We identified an internal control weakness related to the ability of DFAS-DE to provide documentation supporting the disbursements it processed in FY 2004. We reviewed the self-evaluations prepared by six DFAS-DE organizations responsible for monitoring and controlling the reconciliation and agreement of detail field accounting records with departmental accounting records that are the basis for financial reporting. Managers in the six DFAS-DE organizations did not identify and report any material internal control weaknesses related to the financial reporting of Air Force General Fund disbursements.

Reporting Air Force General Fund Disbursements

Although GAFS-R was able to identify the transactions that comprised the disbursements reported on Line 15a. in the Air Force General Fund FY 2004 SBR, DFAS-DE was not able to provide complete supporting documentation for 15 of the 45 disbursement transactions we sampled. Despite repeated requests from October 2005 through August 2006, DFAS-DE personnel provided us with complete supporting documentation for only 30 disbursement transactions and partial documentation for an additional 6 disbursement transactions. DFAS-DE did not have an effective means of identifying, obtaining, and providing supporting documentation in a timely manner. As a result, we could not verify that a universe of transactions was available to support the dollar value of disbursements reported on Line 15a. in the Air Force General Fund FY 2004 SBR.

Financial Reporting of Disbursements

Total disbursements (\$131.8 billion) reported on Line 15a. in the Air Force General Fund FY 2004 SBR were supported by USSGL account balances in the DDRS trial balance. GAFS-R retained a universe of transactions that supported the USSGL account balances that DFAS-DE used to comprise the DDRS trial balance. DFAS-DE personnel reconciled cumulative Air Force General Fund net disbursements by appropriation with the cumulative amounts reported by the Treasury as of September 30, 2004. As of that date, the cumulative Treasury totals were \$591.7 million more than those in GAFS-R. DFAS-DE subsequently prepared and posted a journal voucher adjustment to make disbursements reported in GAFS-R and DDRS equal the Treasury totals. This unsupported difference was substantially reconciled after year-end when DFAS-DE identified reconciling items, increasing net disbursements by \$588.2 million (\$3.8 million less than required to balance to Treasury). DFAS-DE did not decrease the disbursements reported in the September 30, 2004, financial statements by the final unsupported difference of \$3.8 million because the amount was immaterial to the reported total.

Review of Sample Items

The USSGL account balances in GAFS-R were supported by a universe of disbursement transactions and journal vouchers. Table 1 shows a breakdown of the GAFS-R records that comprised the account balances as of September 30, 2004.

Table 1. Breakdown of GAFS-R Records as of September 30, 2004		
Type of Record	Number	Dollar Value \$ in billions
Disbursement	10,528,467	\$131.9
Journal Voucher	4,342	(.1)
Total		\$131.8

Using the universe of transactions supporting the GAFS-R USSGL account balances, we selected two samples to perform selected control tests to assess audit risk and determine whether an audit trail from line 15a. back to the source documents existed. We randomly selected 45 disbursement transactions and 45 journal vouchers. We requested that DFAS-DE provide us documentation supporting the journal vouchers and the disbursements. We initially requested the information in October 2005 and made additional attempts through April 2006 to obtain hard and electronic copies of supporting documentation from DFAS-DE personnel.²

Disbursement Transactions Control Sample. From October 2005 through April 2006, DFAS-DE personnel were unable to provide sufficient supporting documentation for 42 of the 45 sample disbursement transactions selected for testing. They provided partial documentation for 19 sample disbursement transactions, but did not provide any supporting documentation for 23 of the sample disbursement transactions. We made numerous attempts to obtain the requested information from October 2005 through April 2006. Without the supporting documentation, we could not verify that an adequate audit trail existed for the disbursements in GAFS-R. Although DFAS-DE personnel did not provide any specific reason for their inability to provide all the documentation we requested, problems with Disbursing Officer's Voucher (DOV) numbers associated with the sample disbursement transactions may have contributed to the problem. The lack of an appropriate audit trail leading to original documentation for transactions adversely affects management's ability to produce reliable financial statements and increases audit inefficiencies.

Results of Partially Completed Control Test. For each of the 45 sample items, we requested hard copy or electronic DOVs (SF 1034 and SF 1081) and sub-vouchers (DD Form 1351-2 and Defense Logistics Agency Form 1675); transaction evidence, such as vendor invoices, receiving reports, interfund transfers (SF 1080), and various types of orders; and payment evidence, such as Treasury checks and electronic funds transfer documentation. DFAS-DE provided complete supporting documentation for 3 of our sample disbursement transactions and partial supporting documentation for 19 other sample disbursement transactions. Table C-1 (Appendix C) provides pertinent

² Management Actions on page 7 describes documentation we obtained from August 15, 2006, through September 15, 2006.

information for each of the 45 sample disbursement transactions. Table 2 summarizes the level of documentary support DFAS-DE personnel provided for the 45 disbursement transactions as of August 15, 2006.

Table 2. Documentation Provided for Sample Items				
		Documentation Provided		
Level of Documentary Support	Total Sample	Disbursement Voucher	Transaction Evidence	Payment Evidence
Complete	3	3	3	3
Partial	19	17	12	1
None	23	0	0	0
Total	45	20	15	4

DoD FMR, volume 6A, chapter 2, requires complete and accurate audit trails. The DoD Components and DFAS are supposed to work together to maintain adequate audit trails to support individual transactions reported to DFAS for financial reporting purposes. Because DFAS-DE did not provide us with sufficient documentation for the sample disbursement transactions, we could not complete our planned control testing of the disbursement transactions. Without the requested information, we could not verify that an adequate audit trail existed for identifying and obtaining evidence supporting disbursement transactions recorded in GAFS-R. DFAS-DE needs to improve its processes for identifying obtaining audit documentation to auditors and providing it to auditors in a timely manner.

Identification of Disbursement Vouchers. The GAFS-R record for 28 of the 45 sample disbursement transactions did not include a DOV number in the appropriate field. The DOV number is a unique identifier for each disbursement voucher and is required by DoD FMR, volume 5, chapter 11. It is an important element of an adequate audit trail for disbursements. The presence of a DOV number, or another common identifier, in each GAFS-R record would improve the audit trail. However, the presence of the DOV number in GAFS-R did not correlate directly with whether supporting documentation was provided to us. As of August 15, 2006, DFAS-DE personnel had provided us with partial or complete documentation for 8 of the 28 sample disbursement transactions for which a DOV number was not present in GAFS-R, but they had not provided us with documentation for 4 of the 17 sample disbursement transactions for which a DOV number was present in GAFS-R. In addition, three sample disbursement transactions had the DOV number truncated from the 10 digits present in the feeder system to 8 digits allowed in the GAFS-R record. This incompatibility between GAFS-R and some feeder accounting and reporting systems further obstructed the audit trail.

Journal Voucher Control Sample. Documentation was available to support the 45 journal vouchers. We obtained a copy of each journal voucher and reviewed the documentation file that DFAS-DE maintained for it. Each journal voucher contained multiple line item records that affected numerous financial statement line items. We confirmed that each journal voucher agreed with the GAFS-R record in amount and by USSGL account. We also confirmed that an appropriate

DFAS-DE accounting official approved each journal voucher. We reviewed the documentation file for each journal voucher to determine whether the journal voucher was supported by appropriate documentation available for audit. We did not review the documentation for propriety. We concluded that each of the line item records that related to Line 15a. was a valid item in the disbursements universe. Table C-2 provides pertinent information for each of the 45 journal vouchers.

Management Actions

On August 15, 2006, we met with DFAS-DE management representatives. Management personnel stated that the inability to provide sufficient supporting documentation for the sample disbursement transactions was not representative of DFAS-DE management's commitment to meeting auditors' requirements, and the audit results did not fairly reflect the audit trail for tracing transactions to source documentation. From August 15, 2006, through September 15, 2006, DFAS-DE personnel made a concerted effort to provide the missing documentation for the 42 sample disbursement transactions. DFAS-DE personnel provided us additional information to complete 27 of the 42 sample disbursement transactions. Table 3 shows the updated status of the documentary support DFAS-DE personnel provided for the 45 sample items.

Table 3. Updated Status of Documentation Provided for Sample Disbursement Transactions (as of September 15, 2006)				
		Documentation Provided		
Level of Documentary Support	Total Sample	Disbursement Voucher	Transaction Evidence	Payment Evidence
Complete	30	30 ¹	30	30 ²
Partial	6	4	3	2
None	9	0	0	0
Total	45	34¹	33	32²
¹ Includes 12 sample items that did not require a disbursement voucher.				
² Includes 4 sample items that did not require payment evidence.				

As of September 15, 2006, DFAS-DE personnel had not provided us with complete supporting documentation for 15 of the 45 sample disbursement transactions.

Conclusion

GAFS-R identified the transactions that populated the disbursements reported on Line 15a. in the Air Force General Fund FY 2004 SBR. From that universe, we were able to select disbursement transactions and journal vouchers for control testing. However,

although DFAS-DE personnel were able to provide complete supporting documentation for all 45 sample journal vouchers, they were able to provide complete supporting documentation for only 30 of 45 sample disbursement transactions.

The lack of documentary evidence prevented us from satisfying ourselves that the financial statement line item was supported by reasonable documentation and verifying that a valid universe of disbursements exists. For DoD managers to determine that a financial statement line item is ready for audit and for auditors to ultimately express an opinion on the financial statements, they must be satisfied that the financial statements are supported by reasonable documentation. The Air Force and DFAS have only limited assurance that an adequate audit trail exists for the disbursements reported in the financial statements. Until corrected, the problems discussed in this report will prevent DFAS-DE from promptly providing auditors with documentation required to support disbursements on the Air Force General Fund SBR and Balance Sheet. When disbursement audit trails are not adequate, the accuracy and validity of disbursements cannot be verified efficiently, if at all. The lack of appropriate DFAS support in response to auditor requests also increases the cost of audits because of increased audit inefficiencies. DFAS-DE needs to improve processes for identifying and obtaining audit documentation and providing it to auditors in a timely manner. These improvements should include procedures for identifying the source of transactions posted to GAFS-R, the subject matter experts for each related system process, and the points of contacts for obtaining documentation from feeder accounting and reporting systems or the originator of the transactions. Ensuring that the DOV number for all disbursement records is transferred from feeder accounting and reporting systems to GAFS-R also would improve the audit trail.

Management Comments on the Finding and Audit Response

Management Comments. The Central Site Director at DFAS-DE partially concurred with the finding. The Central Site Director stated that DFAS continues to pursue opportunities to enhance audit trails but believes that an audit trail providing referential integrity from recorded transactions to source systems and supporting documentation exists for disbursements recorded in GAFS-R. He stated that knowledgeable personnel were eventually able to locate complete documentation for 41 sample disbursement transactions and partial documentation for 3 of the remaining 4 disbursement transactions. Documentation for the other transaction was transferred from a closed site, and it has not been located. The Central Site Director also stated the sample items were varied in nature and involved a wide range of systems, processes, interfaces, and organizations. When voucher numbers were not in GAFS-R, knowledgeable personnel used other data elements in GAFS-R to identify and track the transactions. The Central Site Director agreed that efforts to provide requested documentation were not always timely or responsive and stated that time frames for obtaining and providing documentation will be improved in the future. He also acknowledged that the audit provided an important first step for conducting a comprehensive audit of the Disbursements line in the SBR.

Audit Response. Referential integrity from transactions recorded in GAFS-R to source systems and supporting documentation should not depend on the availability of personnel knowledgeable of the wide range of systems, processes, interfaces, and organizations involved in recording and reporting Air Force disbursement transactions. We acknowledge that DFAS-DE provided us with additional supporting documentation for the requested sample transactions subsequent to completion of our audit. However, we did not review this documentation and cannot comment on management's assertion regarding the completeness of the documentation provided. The ability to promptly provide auditors with complete documentation is essential and will continue to grow in importance. Although our audit results cannot be projected on the population of 10,528,467 transactions, valued at \$131.8 billion, we believe they clearly indicate that DFAS-DE would have trouble providing auditors with documentation supporting transactions used in the compilation of the Air Force financial statements. If DFAS-DE does not improve the audit trail, financial statement audits may be impractical or unnecessarily expensive.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Finance and Accounting Service Denver:

1. Improve processes for identifying and obtaining audit documentation and providing it to auditors in a timely manner.

Management Comments. The Central Site Director at DFAS-DE concurred in principle with the recommendation and stated that processes and procedures for providing requested documentation will continue to be emphasized to DFAS managers, including procedures for ensuring that records at closing sites will be maintained and available at enduring sites. He stated that DFAS is committed to working closely with audit staff to obtain needed information and documentation. He also stated that improved communication and coordination between auditors and management throughout audit fieldwork should help reduce time frames for providing requested documentation.

Audit Response. Management comments are responsive. As a result of a concerted effort at the end of the audit and during the time DFAS-DE prepared comments on the draft of this report, DFAS-DE personnel were able to provide us with complete or partial supporting documentation for 44 of the 45 sample disbursement transactions. The DFAS-DE Audit Liaison Office took a more active role in the process and involved personnel who were knowledgeable of the wide range of systems, processes, interfaces, and organizations used to record and report Air Force disbursement transactions. More frequent communication with and direct auditor access to DFAS managers and their functional staff and work product is a significant aspect of improving the responsiveness to auditor requests for documentation. By periodically emphasizing to managers the processes and procedures for providing requested documentation and ensuring that records originating at closing sites are maintained and available at enduring sites, DFAS-DE can be more responsive to auditor requests for supporting documentation.

2. Record a complete disbursement voucher number (or another common identifier) for all disbursement records in the General Accounting and Finance System – Rehost.

Management Comments. The Central Site Director at DFAS-DE nonconcurrent and stated that referential integrity to source systems and documentation exists with or without a complete voucher number recorded in GAFS-R. He acknowledged that GAFS-R records do not always contain a complete voucher number for disbursements made by another organization and reported through various interface processes. When a voucher number is not available or not provided to GAFS-R by the source system, other data elements are used to determine the source and category of the disbursement transaction. The Central Site Director stated that personnel who were knowledgeable of the processes, systems, interfaces, and available documentation were able to track GAFS-R transactions to the source systems and supporting documentation for 44 of the 45 sample items. System changes to perpetuate a complete voucher number throughout all disbursement processes, systems, and interfaces would be a significant endeavor, especially for those systems not owned by DFAS or the Air Force. The Central Site Director also stated that DFAS believes the audit's limited scope neither substantiates nor warrants such an effort.

Audit Response. Management comments are partially responsive. Our control sample test was adequate to demonstrate that there is not a direct and efficient audit trail for many types of transactions in the disbursements universe. Reliance on non-unique data elements to research transactions and obtain documentation for auditor verification is more time-consuming than necessary even with personnel who are knowledgeable of the processes, systems, interfaces, and available documentation. We understand that management must constantly weigh the costs and benefits of internal controls and system processes it implements. However, the results of this audit indicate that financial statement audits may not be cost-effective even if DFAS is ultimately able to obtain supporting documentation for transactions selected for testing. We also recognize the significance of the system changes needed to perpetuate a complete voucher number throughout all disbursement processes, systems, and interfaces. DFAS should review its most significant processes, systems, and interfaces related to disbursements for obvious and economical opportunities to increase the number of GAFS-R records that include a unique identifier that will allow more effective identification of the transactions and more timely retrieval of supporting documentation. The data elements that can be used to determine the source and category of disbursement transactions and provide a cross reference to the transactions and supporting documentation should be clearly specified. We request that the Central Site Director reconsider his position and provide additional comments on the final report.

Appendix A. Scope and Methodology

We reviewed internal controls and accounting procedures related to reporting disbursements in the Air Force General Fund FY 2004 SBR. We interviewed personnel from the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) and DFAS; and obtained and reviewed applicable Treasury Financial Manuals, DoD FMRs, and other DoD guidance documents such as DFAS-DE standard operating procedures and cycle memos. We also performed walk-throughs of pertinent processes; and obtained and examined supporting documents for accounting reports, journal vouchers, and individual disbursement transactions.

We reviewed the dollar value of the USSGL accounts that comprised Line 15a., Disbursements, as reported in the DDFS and GAFS-R trial balances as of September 30, 2004, and compared their cumulative totals to the amount reported on Line 15a. in the Air Force General Fund FY 2004 Combined SBR. We reviewed the controls and procedures for reconciling the amount of cash disbursements reported in GAFS-R to the amounts reported by the U.S. Treasury. We also reviewed the controls and procedures for reconciling the dollar value of disbursements reported in GAFS-R to the amounts reported by the underlying transaction processing systems. To assess the audit risk associated with financial reporting controls related to the accumulation of detail transactions into USSGL account totals and the processing of individual disbursement transactions, we obtained a universe of 10,528,467 disbursement records and 67,564 journal voucher line items (4,342 journal vouchers) from GAFS-R in support of Line 15a. in the FY 2004 Combined SBR for the Air Force General Fund. We randomly selected a sample of 45 individual disbursement transactions and a sample of 45 journal vouchers for control testing.

From October 2005 through August 2006, we attempted to obtain supporting documentation for the sample of 45 disbursement transactions and 45 journal vouchers. For each individual disbursement transaction and journal voucher in our sample for which DFAS-DE provided documentation, we examined all related documents and detail accounting records supporting the item.

We reviewed the documentation file for each journal voucher for the limited purpose of determining whether the journal voucher was supported by appropriate documentation available for audit. We did not examine the supporting documentation to determine its propriety. We also reviewed the DFAS-DE management control program related to financial reporting controls over disbursements.

We performed this audit from February 2005 through September 2006 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. The disbursements amount reported on Line 15a. in the Air Force General Fund FY 2004 Combined SBR flows from detail processing systems to the general ledger accumulation system to the financial statement reporting system. We did not test the general and application controls for these systems to determine the validity of the related

computer-processed data. We independently validated that the accumulation of the universe of the detail transactions agreed with the reported SBR total. We relied on the agreement of the output data from system to system to support data validity. In addition, we validated our sample items by examining the related supporting documents for agreement with detail accounting output from the transaction processing system. Nothing came to our attention as a result of specified procedures that caused us to doubt the reliability of the computer-processed data.

Use of Technical Assistance. Personnel from the Quantitative Methods Directorate, Office of the Deputy Inspector General for Policy and Oversight assisted in the development of the random samples of individual disbursement transactions and journal vouchers selected from the universe for detail testing.

Government Accountability Office High-Risk Area. The Government Accountability Office (GAO) has identified several DoD high-risk areas. This report provides coverage of the Financial Management, Approach to Business Transformation, and Business System Modernization high-risk areas.

Prior Coverage

During the last 5 years, GAO, the Department of Defense Inspector General (DoD IG), and Air Force Audit Agency (AFAA) have issued five reports related to disbursements and the Statement of Budgetary Resources. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted AFAA reports can be accessed at <https://www.afaa.hq.af.mil/afck/plansreports/reports.shtml>.

GAO

GAO Report No. GAO-05-521, “DoD Problem Disbursements, Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Writeoffs,” June 2, 2005

DoD IG

DoD IG Report No. D2006-0039, “Internal Controls Over the Compilation of the Air Force, General Fund, Fund Balance with Treasury for FY 2004,” December 23, 2005

AFAA

AFAA Report No. F2005-0002-FB2000, “General Accounting Finance System – Rehost Controls,” March 23, 2005

AFAA Report No. F2005-0001-FB2000, “Statement of Budgetary Resources (General Fund) Financial Data Systems,” February 2, 2005

AFAA Report No. F2004-0007-FB3000, “General Accounting Finance System (GAFS/BQ) Access Controls,” December 16, 2003

Appendix B. Financial Reporting of Disbursements

The Air Force reported total disbursements of \$131.8 billion in its Air Force General Fund FY 2004 Combined SBR. Various disbursing offices make disbursements against the U.S. Treasury for the Air Force. These disbursement transactions take place throughout the world. Numerous financial systems process transactions that culminate in a disbursement for financial accounting purposes. Disbursements include cash payments for goods furnished or services rendered, “no check drawn” transfers of funds from one appropriation or fund to another, and transfers made via Treasury’s Intra-governmental Payment and Collection System. A disbursement may also be a combination of a payment and a collection by voucher deduction. For example, a civilian payroll voucher may include deductions for Federal tax, U.S. savings bonds, and civil service retirement as well as the net pay disbursed to the payee.

As agents of the Treasury, DoD disbursing officers make disbursements on Treasury’s behalf. The Military Services and other Defense agencies have disbursing offices that make a variety of disbursements throughout the monthly cycle, including cash payments by Treasury check and electronic funds transfer and non-cash disbursements. These transactions include for-self disbursements (intra-service disbursements) and by-others disbursements (inter-service and interagency disbursements). The DoD disbursing officers’ agency relationship requires them to report their Air Force disbursements by appropriation to Treasury through DFAS-DE. During FY 2004, the Air Force had 195 direct appropriations with disbursement activity. The DoD disbursing officers satisfy their cash accountability requirements by reporting their disbursements to the Treasury daily using DD Form 2657, “Daily Statement of Accountability.” On a monthly basis, summary information is sent to the Treasury using Standard Form (SF) 1219, “Statement of Accountability” and SF 1329, “Statement of Transactions According to Appropriations, Funds and Receipt Accounts in Support of Statement of Accountability.” In addition, disbursing officers report all checks issued monthly using SF 1179, “Month End Check Issue Summary.” Other Government agencies also make Air Force disbursements directly through Treasury (such as the U.S. State Department and the Department of Transportation). The Treasury maintains a trial balance of unexpended Air Force general funds by appropriation and reports these balances monthly on SF 6653, “Undisbursed Appropriation Account Ledger.”

Disbursing officers within the DFAS-DE network make intra-service disbursements. Inter-service disbursements are made by disbursing officers reporting to a DFAS site outside the DFAS-DE network. Other Government agencies also make disbursements for the Air Force and provide the accounting detail to the servicing DFAS Central Site (DFAS Cleveland, Columbus, and Indianapolis). Each DFAS site compiles the information from its disbursing officers and reports its disbursement transactions to the DFAS Central Sites as appropriate. DFAS Central Sites may report both intra-service and inter-service

disbursements for the Air Force. For example, DFAS Cleveland reports for-self disbursements for Air Force payroll and by-others disbursements for Navy payments citing Air Force general funds.

DFAS-DE accumulates Air Force General Fund disbursements for departmental budgetary and proprietary accounting. However, there is not a single integrated financial system that processes disbursements and accumulates the related accounting information for financial reporting. The disbursing systems generally interface to the financial reporting systems by transferring data files for automated posting. The field-level financial reporting system for the Air Force is GAFS-BL. It tracks appropriation funds on a budgetary basis. Accounting transactions entered into the GAFS-BL system are not assigned USSGL account codes at the time of entry. DFAS-DE uses GAFS-R to perform the required general ledger accounting. Using the transactions from GAFS-BL, GAFS-R classifies and posts the transactions into USSGL accounts by employing an extensive set of rules based on a number of coded attributes in each GAFS-BL transaction record. In FY 2004, GAFS-R translated more than 10 million disbursement transactions and DFAS-DE posted more than 4,000 correcting journal vouchers with more than 60,000 line items adjusting disbursement general ledger accounts for rules translation errors.

A detail voucher showing appropriate date, voucher number, bill number, paying activity, approvals, and various other accounting data supports each disbursement. Documentation such as vendors' invoices, evidence of receipt and acceptance of goods and services, and approved travel orders, support each paid voucher. Standard voucher forms include:

- SF 1034, Public Voucher for Purchases and Services Other Than Personal;
- SF 1080, Voucher for Transfers Between Appropriations And/Or Funds;
- SF 1081, Voucher and Schedule of Withdrawals and Credits;
- DD Form 1351-2, Travel Voucher or Sub-Voucher;
- DD Form 1400, Statement of Interfund Transactions; and
- Defense Logistics Agency (DLA) 1675, Sub-Voucher.

The Air Force processes for-self disbursements through the DFAS-DE Centralized Disbursements System (CDS), DFAS Columbus CDS, Treasury's Intra-governmental Payment and Collection System, and the DFAS Cleveland payroll system. The various disbursing systems provide Air Force general funds for-self disbursement transactions to DFAS-DE using data base transfer (DBT) files. GAFS-BL receives and automatically posts these DBT files daily. Daily, DFAS-DE reconciles the for-self disbursements posted to GAFS-BL to the DD Form 2657 prepared by each disbursing officer. As of each month end, DFAS-DE reconciles the summary of current month postings of for-self disbursements to GAFS-BL (as shown on Report HAF-ACF(M)7113) to the total disbursements reported on SF 1219 and to the disbursements by

appropriation reported on SF 1329 prepared by disbursing officers and reported to Treasury. This reconciliation ensures agreement of total for-self disbursement activity posted to GAFS-BL with that reported to Treasury.

By-others disbursements citing Air Force general funds come from the other DFAS Central Sites and directly from other Federal agencies. The disbursing officers making these disbursements have reported their totals to Treasury. Air Force field organizations must accept the individual disbursements before they are included in departmental accounting records. By-others disbursements not yet accepted are not posted to departmental records as of month end and must be entered by journal voucher adjustment.

GAFS-BL transmits a file containing accounting transaction data to GAFS-R daily. GAFS-R processes the detailed disbursements transactions assigning them to USSGL accounts based on the Balance Identifier (BID) and various data elements in the GAFS-BL record. DFAS-DE departmental accounting personnel balance these daily data transfers. GAFS-BL produces a cumulative Report HAF-ACF(M)7113, which is reconciled to the cumulative GAFS-R trial balance for final assurance that all GAFS-BL transactions are posted to GAFS-R at the end of the month. With respect to disbursements, DFAS-DE departmental accountants compare cumulative disbursements (by appropriation) from Treasury to cumulative disbursements in GAFS-R prior to final month-end closing and completion of the financial reporting process. The difference between these cumulative totals is referred to as Undistributed Net Disbursements. DFAS-DE departmental accountants record journal voucher entries to adjust GAFS-R general ledger account balances to the Treasury balances and complete their monthly financial reporting. On September 30, 2004, Undistributed Net Disbursements totaled \$591.7 million (the Treasury cumulative net disbursements were more than the Air Force cumulative departmental net disbursements). After the month end closing, the DFAS-DE Accountability and Reporting Division analyzes the differences and completes the reconciliation to the Treasury SF 6653 trial balance. The by-others disbursements not yet accepted by field organizations that are not posted to departmental totals are the most substantial part of the reconciling items. Other reconciling items are generally also current month disbursements or reimbursements reported to Treasury that have not been posted to departmental totals in GAFS-R. The Undistributed Net Disbursements amount is never fully supported with known reconciling items. As of September 30, 2004, the unsupported amount was \$3.8 million. This amount would have decreased reported disbursements in the Air Force General Fund SBR.

The USSGL crosswalk to the SBR in Treasury Financial Manual Supplement Release S2 05-01, December 2004, specifies that the following USSGL accounts comprise Line 15a. of the SBR for FY 2004.

- 4802 Undelivered Orders – Obligations, Prepaid/Advanced
- 4882 Upward Adjustments of Prior-Year Undelivered Orders – Obligations, Prepaid/Advanced
- 4902 Delivered Orders – Obligations, Paid
- 4908 Authority Outlayed Not Yet Disbursed
- 4982 Upward Adjustments of Prior-Year Delivered Orders – Obligations, Paid

The total of these account balances from the GAFS-R trial balance on September 30, 2004, was in agreement with the disbursements amount reported in the published Air Force General Fund FY 2004 Combined SBR.

Appendix C. Disbursement Transaction and Journal Voucher Samples

Table C-1 lists the 45 disbursement transactions selected for review, including the 2 sample transactions that we initially selected but replaced. The DOV Number field should contain the unique identifying reference for each disbursement voucher processed. This reference enables timely research of the disbursement, including locating the original documentation supporting its validity. Table C-1 also identifies the information that DFAS-DE did not provide us.

Table C-2 lists the 45 journal vouchers selected for review. The JV Reference field offers the unique identifying reference number for each journal voucher processed. As discussed in Appendix B, GAFS-R uses an extensive set of rules to classify transaction data it receives for posting to USSGL accounts.

Table C-1. Disbursement Transaction Sample						
Sample Number	Disbursement Record in GAFS-R			Disbursement Voucher Provided	Transaction Evidence Provided	Payment Evidence Provided
	Date	\$ Amount	DOV Number			
1	3/23/2004	(527.40)	DQ086797	Yes	Yes	Yes ¹
2	5/11/2004	(47.70)	Not present	N/A ¹	Yes ¹	Yes ¹
3	7/17/2005	3,440.40	D77911	Yes	Not provided	Not provided
4	7/19/2004	(86,774.13)	Not present	Yes	Yes ¹	Yes ¹
5	4/26/2004	(1,001.16)	Not present	Not provided	Yes	Not provided
6	1/21/2004	(19.20)	Not present	N/A ²	Yes ¹	N/A ²
7	8/18/2004	468.69	Not present	Yes	Yes	Not provided
8	9/10/2004	(86.33)	Not present	N/A ¹	Yes ¹	Yes ¹
9	4/30/2004	(7.16)	Not present	Not provided	Not provided	Not provided
10	7/21/2004	(668.00)	TMA05987	Yes	Yes	Yes ¹
11	11/21/2003	(0.02)	Not present	Yes	Yes	Yes
12	2/27/2004	(0.01)	Not present	Not provided	Not provided	Not provided
13	1/9/2004	(307.00)	Not present	Yes	Yes	Yes ¹
14	10/9/2003	(38.48)	CRM00079	Yes	Yes	Yes
15	3/2/2004	86,869.81	Not present	N/A ³	Yes ¹	N/A ³
16	7/8/2004	(21,546.07)	Not present	N/A ¹	Yes ¹	Yes ¹
17	10/7/2003	(273.00)	TM800276	Yes	Yes	Yes ¹
18	5/6/2004	(412.50)	TOP03070	Yes	Yes ¹	Yes ¹
19	12/9/2003	(672.00)	DM041430	Yes ¹	Yes	Yes ¹
20	6/18/2004	(1,466.79)	Not present	Not provided	Not provided	Not provided
21	7/4/2004	(967.39)	Item removed from sample and replaced.			
22	6/23/2004	(2,057.25)	Not present	Not provided	Not provided	Not provided
23	3/16/2004	(814.96)	TX202256	Yes	Yes ¹	Yes ¹
24	4/16/2004	(90,727.63)	DP017531	Yes	Yes	Not provided
25	9/24/2004	(668.05)	TH305797	Yes	Yes ¹	Yes ¹
26	9/7/2004	(15,643.81)	Not present	N/A ¹	Yes ¹	Yes ¹
27	4/26/2004	(2,306.30)	Not present	Yes	Not provided	Yes
28	12/3/2003	(15.30)	Not present	N/A ¹	Yes ¹	Yes ¹
29	12/19/2003	(106.97)	4Q0J9030	Not provided	Not provided	Not provided
30	11/18/2003	(1,317.90)	Not present	Not provided	Not provided	Yes ¹
Table continued on next page						

¹ DFAS-DE personnel provided us this documentation from August 15, 2006, through September 15, 2006.

² These sample items are vouchers that were voided.

³ Sample item #15 is an entry related to the transfer of disbursement records from one DFAS processing center to another. Therefore, there is no standard voucher or payment evidence applicable for this transaction.

Table C-1. Disbursement Transaction Sample (cont'd)						
Sample Number	Disbursement Record in GAFS-R			Disbursement Voucher Provided	Transaction Evidence Provided	Payment Evidence Provided
	Date	\$ Amount	DOV Number			
31	6/10/2004	(2,252.05)	T9G28051	Yes	Yes	Yes ¹
32	12/11/2003	(4,122.69)	Not present	N/A ¹	Yes ¹	Yes ¹
33	9/8/2004	(38.25)	Not present	Yes	Yes	Yes ¹
34	12/24/2003	1,519.61	DM052052	Yes	Yes	N/A ⁴
35	12/9/2003	(731.50)	TM203526	Yes	Yes	Yes ¹
36	11/6/2003	(20.70)	Not present	N/A ¹	Yes ¹	Yes ¹
37	1/8/2004	(22.44)	Not present	N/A ¹	Yes ¹	Yes ¹
38	11/4/2003	9,126.40	CRO00716	Yes	Yes	Yes
39	7/28/2004	46.00	TKN03159	N/A ²	Yes ¹	N/A ²
40	7/3/2004	(2,138.58)	Item removed from sample and replaced.			
41	7/7/2004	(10,160.10)	Not present	Yes	Yes ¹	Yes ¹
42	8/27/2004	(442.71)	Not present	Not provided	Not provided	Not provided
43	7/1/2004	(70.43)	DW015214	Yes ¹	Yes ¹	Yes ¹
44	7/14/2004	(5.90)	Not present	Not provided	Not provided	Not provided
45	8/19/2004	(22.50)	Not present	N/A ¹	Yes ¹	Yes ¹
Repl #1	11/6/2003	(12.61)	Not present	Not provided	Not provided	Not provided
Repl #2	4/12/2004	(1,351.72)	Not present	Not provided	Not provided	Not provided

¹ DFAS-DE personnel provided us this documentation from August 15, 2006, through September 15, 2006.

² These sample items are vouchers that were voided.

⁴ Sample item #34 is a voucher that was subsequently voided. Therefore, payment evidence is not applicable for this transaction.

Table C-2. Journal Voucher Sample Selection				
Sample Number	JV Reference	Date Approved	JV Amount	Support Available
1	J2004014820	5/26/2004	\$ (22,793.00)	Yes
2	J2004014875	5/26/2004	\$ 11,415.41	Yes
3	J2004014511	5/25/2004	\$ (1,134.30)	Yes
4	J2004014519	5/25/2004	\$ 20,848.25	Yes
5	J2004014788	5/26/2004	\$ 3,128.89	Yes
6	J2004014745	5/26/2004	\$ (34,746.60)	Yes
7	J2004014399	5/25/2004	\$ (3,624.80)	Yes
8	J2004023910	10/5/2004	\$ (3,337.35)	Yes
9	J2004023882	10/5/2004	\$ 8,230.00	Yes
10	J2004023784	10/5/2004	\$ (183.36)	Yes
11	J2004014751	5/26/2004	\$ (1,440.00)	Yes
12	J2004014842	5/26/2004	\$ (8,132.60)	Yes
13	J2004014796	5/26/2004	\$ 5,149.50	Yes
14	J2004023787	10/5/2004	\$ 8,436.92	Yes
15	J2004014517	5/25/2004	\$ (1,467.15)	Yes
16	J2004014803	5/26/2004	\$ (2,129.60)	Yes
17	J2004014517	5/25/2004	\$ (5,746.95)	Yes
18	J2004014825	5/26/2004	\$ (1,321.00)	Yes
19	J2004014861	5/26/2004	\$ (12,749.00)	Yes
20	J2004014855	5/26/2004	\$ 1,127.00	Yes
21	J2004014750	5/26/2004	\$ 1,085.00	Yes
22	J2004012027	4/9/2004	\$ (16,358.20)	Yes
23	J2004014629	5/26/2004	\$ (1,745.37)	Yes
24	J2004023719	10/4/2004	\$ 5,520.85	Yes
25	J2004014796	5/26/2004	\$ 39,218.02	Yes
26	J2004014400	5/25/2004	\$ 11,494.90	Yes
27	J2004014585	5/25/2004	\$ 5,205.16	Yes
28	J2004014518	5/25/2004	\$ 4,810.86	Yes
29	J2004014400	5/25/2004	\$ 1,749.00	Yes
30	J2004008420	2/14/2004	\$ (35,100.00)	Yes
31	J2004014580	5/25/2004	\$ 3,777.40	Yes
32	J2004014517	5/25/2004	\$ 67,173.21	Yes
33	J2004016150	6/5/2004	\$ (77,488.49)	Yes
34	J2004009963	3/10/2004	\$ 3,969,870.73	Yes
35	J2004023883	10/5/2004	\$ (6,650.00)	Yes
36	J2004014761	5/26/2004	\$ 2,969.82	Yes
37	J2004023755	10/5/2004	\$ (9,029.62)	Yes
38	J2004002264	12/10/2003	\$ (2,130,079.55)	Yes
39	J2004014813	5/26/2004	\$ (4,702.44)	Yes
40	J2004014639	5/26/2004	\$ (1,119.00)	Yes
41	J2004014570	5/25/2004	\$ 3,350.29	Yes
42	J2004023952	10/5/2004	\$ (11,714.64)	Yes
43	J2004016244	6/5/2004	\$ (906.00)	Yes
44	J2004014534	5/25/2004	\$ (62,391.96)	Yes
45	J2004014411	5/25/2004	\$ 27,124.87	Yes

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Denver

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont'd)

House Committee on Armed Services

House Committee on Oversight and Government Reform

House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform

House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform

Defense Finance and Accounting Service Denver Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

6760 E. IRVINGTON PLACE
DENVER COLORADO 80279-8000

DFAS-AD/DE

NOV 28 2006

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Initial Management Comments to the Department of Defense Inspector General's
Draft Report, "Air Force General Fund Disbursements as Reported in the
Statement of Budgetary Resources" – Project No. D2005-D000FD-0103.000

Initial management comments to the subject audit report are attached. The comments
address the Finding and two Recommendations for disbursement audit trails and supporting
documentation.

Questions may be directed to Mr. Paul Mahoney, Audit Support, DFAS-JBN/DE, (303)
676-7253 or DSN 926-7253, E-mail: paul.mahoney@dfas.mil.


Richard J. Anderturen
Central Site Director
DFAS Denver

Attachment:
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Initial Management Comments
Air Force General Fund Disbursements as Reported in the Statement of Budgetary Resources
Project D2005-D000FD-0103.000

Response to Finding:

Management Comments: Partially concur. Although DFAS continues to pursue opportunities to enhance audit trails, we believe an audit trail exists today for disbursement transactions recorded in GAFS-R that provides referential integrity back to source systems and documentation. As of this date, supporting documentation and explanations have been provided to the DODIG audit staff for 44 of the 45 sample items (41 complete; 3 partial; for the remaining item, records were transferred from a closed site and documentation has not been located to date). Knowledgeable personnel tracked these GAFS-R transactions back to source systems and documentation. Supporting documentation for these transactions varied significantly as the sample included adjustments, corrections, refunds, system-generated entries, etc., that involved a wide range of different systems, processes, interfaces, and organizations. The documentation was obtained both with and without complete voucher numbers recorded in GAFS-R. Where complete voucher numbers were not transmitted and reflected in GAFS-R (for example, from systems not owned by the Air Force or DFAS), other data elements in the GAFS-R record were used to identify and track the transactions. The DODIG acknowledged in the audit Report that the presence of a complete voucher number did not correlate directly with whether supporting documentation was obtained and provided.

The Report noted that DFAS efforts to provide requested documentation were not always timely and responsive. We agree and assure timeframes for obtaining and providing documentation will be improved in the future.

Finally, the draft Report provides DFAS and Air Force management with only limited information for assessing the overall auditability of the Disbursements line 15a on the Air Force's Statement of Budgetary Resources (SBR). The audit effort encompassed a random sample of 45 disbursement transactions valued at \$145,288. DFAS recognizes that the DODIG conclusions in the draft Report are limited to the 45 sample items and do not provide a sufficient basis for projections to the universe of 10,528,467 transactions valued at \$131.8 Billion. However, we believe the audit effort to date provides an important first step for conducting a more comprehensive audit of the Disbursement line on the Air Force's SBR. Such an audit would provide management with valuable insight in efforts to achieve audited Financial Statements.

Response to Recommendations:

Recommendation 1: Improve processes for identifying and obtaining audit documentation and providing it to auditors in a timely manner.

Management Comments: Concur in Principle. Processes and procedures for providing requested documentation will continue to be emphasized to DFAS managers through various forums, meetings, conferences, instructions, etc. This includes procedures for ensuring records at closing sites will be maintained and available at enduring sites. Improved communication and coordination between

auditors and management throughout audit field work will also help reduce timeframes for providing requested documentation. DFAS is committed to working closely with audit staff in their efforts to obtain needed information and documentation.

Estimated Completion Date: This recommendation is considered closed.

Recommendation 2: Record a complete disbursement voucher number (or another common identifier) for all disbursement records in the General Accounting and Finance System – Rehost.

Management Comments: Non-concur. Referential integrity back to source systems and documentation exists for GAFS-R disbursement transactions with or without a complete voucher number recorded in GAFS-R. GAFS-R records do not always contain a complete voucher number for disbursements made by another activity and reported through various interface processes. When the voucher number is not available or provided to GAFS-R by the source system, other data elements are used to determine the source, cross reference, and category of the given disbursement transaction. Examples include disbursements for Interfund and DESC Fuels. In fact, these types of transactions were included in the 45 sample items and the supporting documentation provided was accepted as satisfactory by the DODIG.

The Integrated Accounts Payable System (IAPS) voucher numbers have 2 positions dropped in GAFS-R with no impact on the related audit trail. The need for truncating the 2 positions was discussed and explained to the audit staff.

As of today, DFAS has provided supporting documentation and explanations for 44 of the 45 sample items (41 complete; 3 partial; for the remaining item, records were transferred from a closed site and documentation has not been located to date). Personnel knowledgeable with the processes, systems, interfaces, and available documentation were able to track GAFS-R transactions back to the source systems and supporting documentation for these items.

As stated previously, the limited sample size of 45 items totaling \$145,288 does not provide a sufficient basis for projecting results to the total universe of 10,528,467 transactions valued at \$131.8 Billion. System changes required to perpetuate a complete voucher number throughout all disbursement processes, systems, and interfaces would be a significant endeavor, especially for those systems not owned by DFAS or the Air Force. We believe the Report's limited audit scope neither substantiates nor warrants such an effort.

Point of Contact: Deborah Los/Chief, Accounting Requirements Division/DFAS-ADWZ/DE/303-676-8192

Team Members

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